



# Commonwealth of Virginia

## *Auditor of Public Accounts*

Walter J. Kucharski  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

May 7, 2012

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable Charles J. Colgan  
Chairman, Joint Legislative Audit  
and Review Commission

Board of Visitors  
Norfolk State University

On April 2, 2012 we started the audit of Norfolk State University for the fiscal year ended June 30, 2011. During our initial audit procedures we encountered issues that make it difficult for us to complete the audit for the year ended June 30, 2011. Moreover, these issues are currently impacting the control environment and financial operations of the University and constitute material weaknesses in internal controls. Without significant interim actions, we believe the potential for fraud exists, that normal operations may be impaired, and completion of financial statements for the year ending June 30, 2012 may not occur.

Many of the issues and problems cited in this letter are the result of significant turnover and extended vacancies of key financial positions within the University. While at least three of these individuals have assignments to be either acting or interim in these positions, these individuals continue to have full responsibility for completing their regular assignments. Additionally, many of these individuals did not participate in the preparation of the June 30, 2011 financial statements and therefore do not know how the University prepared the statements.

The following are the issues we identified early in the audit that may impact future operations and reporting along with recommendations for management.

### **Internal Control Issues**

- The positions of Controller, Associate Controller, General Accounting Manager, Fixed Asset Manager, Vice President of Facilities, Accounts Payable Manager, and Procurement Director were unfilled during our audit engagement. Existing staff occupy some of these positions as "Acting" while performing their normal duties.

- Reconciliations of the University's primary payment clearing account with the Department of Accounts system are incomplete for fiscal year 2012. Furthermore, staff have not completed several reconciliations between bank accounts and the new accounting system for several months and they remain uncompleted as of the date of this letter.
- The University does not reconcile the new Colleague finance system to its student account subsidiary module, which includes student billing for tuition and all fees and student payments to the general ledger.
- University personnel have not recorded, tagged or otherwise controlled fixed assets, including equipment, for most of fiscal 2012.

### **System Implementation Issues**

In a March 30, 2011 letter, we expressed concerns about the planned implementation of the University's new accounting system, Colleague, and whether the University had dedicated the appropriate resources to implement the system. Subsequent to this letter, the University reviewed its plans for the system implementation, deadlines, and resource allocation. This review resulted in an increase in resources to meet the implementation plan and deadlines.

The University met its implementation deadlines and the system went operational in accordance with the University's plan. However, while the system is operational, there are a significant number of problems which will make using the system for normal operations and to prepare financial statements for the year ending June 30, 2012 problematic without correction.

- As of April 24, 2012, the University has not entered beginning balances from the old accounting system into the new system. As a result, employees are having difficulty performing reconciliations and other verification procedures needed to determine if the University is properly processing detailed transactions.
- The University only provided training for the accounts payable and procurement functions. This one day training took place a few weeks before Colleague went live. No training exists for general ledger, student account, or finance functions. The implementation plan expected that Department Heads would provide training to their employees on use of the system; however, a number of these positions have acting personnel in them who have not received training in the functions that are part of their normal duties, as well as, the functions in which they are acting.
- There is no post implementation plan or schedule, for Colleague, to identify issues and fix problems.
- The University gave employees access to the new system based upon access they had in the old system. Several employees did not attend any training and management has not reviewed logical access in Colleague. Furthermore, no one has reviewed end user processes and provided employee training to facilitate the integration of old work processes to new work processes.

- Employees are using the Help Desk to answer questions and provide system training; however, those Help Desk employees cannot provide or do not have the training to answer questions correctly. Employees are learning to use the system by self-troubleshooting specific problems and experimentation. The Help Desk also does not track the number and nature of issues they receive, which impedes management's ability to develop appropriate trainings to mitigate call volumes in the future.
- The fixed asset module is supposed to go live July 1, 2012 but this is questionable given the vacancies in Facilities Management, General and Fixed Asset Accounting.
- The new Vice President of Finance and Administration expressed concern over the general lack of oversight, management, and governance over the project.

### **Financial Reporting Issues for the year ended June 30, 2011**

Most of the individuals who prepared the June 30, 2011 financial statements have left the University. The documentation that these individuals left does not adequately explain the reasons for many of the adjustments. Also, remaining staff do not have time to research issues and continue to process daily transactions. Our preliminary review of the information disclosed the below issues.

- A number of adjusting journal entries recording financial statement balances lack supporting documentation showing the reason for the adjustment. The lack of documentation prevents us from drawing conclusions on their reasonableness without understanding the intent of the entries.
- A number of the line items on the trial balance workbook do not agree to the final draft financial statements, and we have not received explanations for the differences. Furthermore, several line items do not agree to information provided to the Commonwealth of Virginia Department of Accounts.

### **Recommendations**

Given the number of risks associated with the current financial statements and the state of the current processing environment, we are concerned about the University's ability to manage its day-to-day financial operations and prepare necessary financial reports as fiscal year 2012 ends. Also, considering the number and nature of errors already identified in the 2011 financial statements, we believe proceeding with the audit at this time is not advisable.

The new Vice President of Finance and Administration needs time to rebuild the Accounting and Finance Department senior management and staff before we can complete the audit. The Vice President is aware of the deficiencies in the current environment and has begun taking action to put in place an experienced management team that can begin to rebuild the accounting functions. Below are some recommendations the Vice President should consider in prioritizing corrective action as he assembles the new management team.

- Management should prioritize filling critical vacancies and allow those new employees time to properly learn their responsibilities and train their staff to operate the on-going financial operations of the University.

- Management should prioritize loading balances from prior periods to its new financial system so that complete data is available to prepare proper account and bank reconciliations.
- Management should ensure account and bank reconciliations for all accounts and funds are complete and accurate starting with June 30, 2011.
- Management should develop and implement a reconciliation process between the Colleague General Ledger and Student Account subsidiary ledgers and reconcile student account activity to the general ledger.
- Management should create a dedicated review team of the Colleague implementation who should create a post implementation plan, help adapt current processes to the new system, and develop proper training for employees at all positions.
- Management should put in place fixed asset procedures and practices that will ensure the proper control and capitalization of equipment and other capital assets.

Once management has reestablished internal controls over general accounting functions, including those discussed above, they should focus on the timely preparation of the 2012 financial statements as the fiscal year closes. As management prepares the 2012 financial statements, they should review and analyze the 2011 statements and journal entries comparatively to determine the appropriateness of the 2011 compilation.

We are issuing this document in accordance with Section 30-139 of the Code of Virginia. We believe the issues contained in this letter constitute a material weakness in internal control which increases the likelihood that unsafe handling of state funds could go undetected.

We would like to give management the opportunity to place the necessary personnel and processes in place to create a control environment that will properly safeguard the Universities assets and support its operations. We will return after the University has closed and reported 2012 results to conduct a two year audit.

AUDITOR OF PUBLIC ACCOUNTS

AWP/clj

May 16, 2012

Walter J. Kucharski  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218

Dear Mr. Kucharski:

The purpose of this letter is to provide Norfolk State University's response to your May 7, 2012 letter regarding the audit of the financial statements for the year ending June 30, 2011. In that letter you indicated that you encountered issues that made it difficult to complete the audit. The issues cited involved internal controls, implementation of a new accounting system and financial reporting.

The University agrees with your assessment of the conditions that make it difficult to complete the audit at this time. The University also agrees with the recommendations you made to address the issues cited. The primary problem is that the University has had vacancies in key positions for an extended period of time. Because of the lack of personnel, internal controls and the University's ability to produce financial statements have been severely compromised.

As stated in your letter, the University is aware of the deficiencies in the current environment and has begun taking action to put in place an experienced management team that can begin to rebuild the accounting functions. To that end, three key appointments have been made since the date of your letter. An experienced controller and assistant controller are scheduled to begin work on May 21, 2012 and May 29, 2012, respectively. A new Director of Procurement is scheduled to begin on May 29, 2012 as well. The University continues to recruit for other key vacancies and will fill them as soon as practical. These include accounting manager, associate vice president for facilities and others.

After the key employees referred to above are in place, the University will develop a more detailed plan to implement all of the recommendations included in your letter. These recommendations involve loading beginning balances, completing certain account reconciliations, creating a Colleague review team, and implementing adequate procedures for fixed assets.

This letter is not intended to address each issue separately. Rather the University desires to communicate that University officials understand the issues and are in the process of implementing a plan for corrective action. The University believes that the decision to delay the audit is appropriate and appreciates your assistance in formally identifying the issues and making recommendations to address them.

The University will keep you apprised of its progress and inform you when it believes it is ready to begin the two year audit.

Sincerely,



Gregory A. Davis

Interim Vice President

Finance and Administration

Cc: Mr. Gary McCollum, Rector  
Mr. Thomas Chewning, Finance Committee Chairman  
Dr. Tony Atwater, President